

Name _____

Economics
Unit 5 – The Market for Labor
Student Notes Packet

Methods of Earning Pay

- **Salary**

- Paid _____, flat amount for established time period (month, year, etc.)
- Pay will be the _____, regardless of hours worked
- Example: a starting teacher makes \$37,000 per year, paid in 12 equal monthly payments

- **Commission**

- Paid a _____ of revenue generated for the business by the employee
- The _____ business you generate (dollar volume), the more you make
- Example: a realtor makes a commission of 3% of the selling price for every house he/she brokers the sale for

- **Piece-Rate**

- Normally used for certain types of factory work where employee produces multiple _____ of the same product
- Employee normally has _____ amount to produce a day (with a guaranteed daily pay) with _____ for production beyond standard amount
- Example: employee assembling computer mother boards has standard production of 24 units per day with a guaranteed base pay of \$96. Incentive rate is \$4.00 per piece ($\$96/24$)
 - If employee produces 24 or fewer products, he/she gets paid \$96 for the day
 - If employee produces more than 24 in a day, he/she gets paid \$96 plus an additional \$4 incentive pay for each unit over 24 he/she produces that day

- **Bonuses**

- Employee receives _____ amount of pay for achieving goal (either individually, as a team, or entire business)
- May be production or revenue goal (or other goal set by employer)
- Example: all employees receive \$500 bonus if the business reaches monthly revenue goal

- **Hourly**

- Referred to as a _____
- Employee is paid a specified _____ for each hour worked
- Pay may fluctuate based on the numbers of hours worked
- Example: a starting cafeteria employee makes \$8.60 per hour
- Employee earns _____ for each hour worked per week in excess of **40 hours**
 - Employee is paid 1 ½ times his/her base hourly rate for those overtime hours (a.k.a. “time and a half”)

The Labor Market

- Works like any other market
- Driven by Supply and Demand
- **Demand** for labor is from the _____
 - Law of Demand applies
 - Employers willing to hire more qualified workers at lower pay rates than higher pay rates
- **Supply** of labor is provided by the _____
 - Law of Supply applies
 - Employees more willing to take jobs at higher pay rates than lower pay rates

Factors Influencing the Supply of Labor

- **Required _____ Level**
 - If a job requires a _____ level of skill, education, and/or experience to do, there will be a _____ potential pool of qualified employees for that job
 - If a job requires a _____ level of skill, education, and/or experience to do, there will be a _____ potential pool of qualified employees for that job

- **Working _____**
 - For two jobs with identical skill, education, and/or work requirements, the number of applicants willing to put up with the worse working conditions is _____ than for the job with better working conditions
- **Location & _____ of Living**
 - Jobs in rural & less populated areas will have _____ people available for a given job
 - Areas with a _____ cost of living will have a workforce that demands a higher wage for a given job compared to an area with a lower cost of living
 - For a given job, _____ workers will be willing to take a given job at a low wage, regardless of the qualifications needed for the job
- **_____ of Worker**
 - For a given job, there tends to be _____ workers with high productivity (output per unit cost) than with low productivity
 - Level of productivity is directly related to skills, education, & experience
 - Workers with more experience & education (and thus more skills) tend to have higher productivity

Factors Influencing the Demand for Labor

- **Overall Demand for the Worker's _____**
 - If the job to be done is something relatively few people need, the demand for that work will be _____
- **_____ of Worker**
 - Employers want the _____ employees
 - Employees with the highest _____ (normally achieved through a combination of education and experience) will be in higher demand than those with lower productivity
 - The cost per _____ output will be less for more productive employees than less productive ones

How Supply & Demand Work in the Labor Market

- For a given _____ with a given skill level, education, and/or experience required, the market for that job could be illustrated with the same supply and demand curves like any other “product”
 - What the supply & demand curves for the labor (location on graph, steepness, etc.) will be dictated by the factors that influence supply & demand for it
 - There will be a market equilibrium “price” for that “product” (labor)
- The employer will offer a given level of _____ (like setting the _____ for any other product)
 - If the level of pay offered is too low, there will be a _____ of qualified applicants
 - The employer will have to raise the “price” (pay) to lure more “producers” (qualified applicants) into the market
 - If the level of pay offered is too high, there will be a _____ of qualified applicants
 - The employer probably will lower the “price” because the surplus indicates that his/her wage is above market equilibrium

Factors/Constraints on Pay

- ***Selling Price of the Employer's*** _____
 - Labor is one of the “costs of doing business” that is factored in to the _____ of the products produced by the employer
 - The market for that _____ is driven by those same Laws of Supply & Demand
 - Employers cannot raise price to cover additional labor costs without it having a negative effect on demand
 - Employers will only hire (or continue to hire) as long as the benefit (increased sales, increased production, etc.) outweighs the cost (pay) for that employee

- **“Fringe Benefits” That Are _____ of the Employee’s Compensation**
 - **Fringe Benefit** = non-pay compensation offered to workers in _____ to their pay
 - Paid Vacation
 - Retirement Plans
 - Health Insurance
 - Tuition Reimbursement
 - Employee’s paycheck might be _____ than if he/she was not receiving these fringe benefits
 - Value of fringe benefit is usually greater than if employee had to pay for those same things out-of-pocket
- **Employer _____ for Employees**
 - Cost of employee to employer is not _____ the pay plus the cost of fringe benefits
 - The government requires _____ to pay/provide the following:
 - Employer matches employee’s Federal Insurance Contributions Act (FICA) contributions to Social Security (6.2% of pay) and Medicare (1.45% of pay); this comes from employer, not employee
 - Employer must pay a total of 6.2% of the first \$7,000 of each employee’s annual pay for Federal and State Unemployment Insurance
 - Employer must carry (and pay for) Worker’s Compensation Insurance to pay for any work-related illnesses, injuries, or death suffered by his/her employees
 - Other
 - These additional costs drive up the labor cost of that employee
- **Minimum Wage**
 - Federal Government has set a minimum wage of \$7.25 an hour (with limited exceptions allowed)
 - Some states set it even higher
 - For some labor, this may be _____ what the market equilibrium would be for that job if the market was allowed to operate without interference
 - A surplus of potential employees for that job occurs (higher unemployment rate)

- This gives the employer a greater ability to hire the employees with the highest potential productivity to maximize output (sales, units produced, etc.) per unit of input (wage) because of such a large applicant pool
 - Workers with less experience & skills (teenagers, less educated, etc.) are “priced out of the market” because they are competing against more skilled employees who wouldn’t be there if the wage was lower

How Changes in Supply & Demand for Goods & Services Affect Income

- **Changes in _____**
 - Demand for the productive resources (land, *labor*, and capital) due to a change in demand for a firm’s goods & services is called **derived demand**
 - When demand for a firm’s goods & services goes up, demand for the _____ needed to produce those goods & services goes up
 - This will lead to an _____ in the incomes of those workers due to overtime and/or an increase in wages to keep those workers
 - When demand for a firm’s goods & services goes _____, demand for the labor needed to produce those goods goes down
 - This will lead to a _____ in the income for those workers since their work hours may need to be cut back
- **Changes in Supply**
 - If overall supply for a product increases, this could lead to an increase in workers’ incomes
 - Workers may get additional hours (including overtime) to provide that increased production
 - If overall supply for a product decreases, this could lead to a decrease in workers’ incomes
 - Workers hours may get cut back due to decreased production needs (especially if the shift in supply temporarily results in an excess inventory that needs to be depleted)

How You Can Increase Your Human Capital

1. *The Starting Point: Aptitudes, Interests, & Aspirations*

- **Aptitudes** = what you are _____ at
- **Interests** = what you _____ to do
- **Aspirations** = what you hope to _____ in your working life
- Do honest self-evaluation
- Can do career surveys to help identify careers that align with your aptitudes, interests, & aspirations

2. *Become Qualified: Education, Certification, & Licensing*

- More advanced education will help you progress even further
 - College
 - Community College
 - 4-Year College
 - University
 - Trade Schools
 - Technical Institutes
 - Job-Training Programs
 - Online
- Certification & Licensing
 - Official recognition that a person is _____ in his/her field
 - Examples:
 - Registered Nurse (RN)
 - Doctor (MD)
 - Microsoft Certified Systems Engineer (MCSE)
 - Automotive Service Excellence (ASE)
 - Teaching License
 - Good way for aspiring professionals to show their competence and commitment to their field
 - People with higher levels of education tend to earn a higher income

3. Gaining Work Experience & On-the-Job Training

- Employers often look for people who have significant _____ & have developed _____ job skills
- Wages tend to rise the _____ a person has been in the labor force
- Some employers prefer to hire inexperienced workers & _____ them on the job
- Most entry-level jobs don't pay _____
 - Most employees don't stay at that entry level job or pay level long
 - Good way to develop job skills & build work experience

4. Increasing Personal Productivity: Effort & High Standards

- Level of energy & enthusiasm workers bring to a job also increases their value to employers
- Some jobs reward workers based on how much they produce
 - Commission
 - Bonuses
 - Performance-Based Pay Raises
- Developing a reputation for being a hard worker with high standards can help you get your next job as a good reference from your previous employer

5. Building a Personal-Professional Network

- Commonly referred to as **networking**
- Professional organizations/associations are a good way to meet colleagues
- Involvement in community organizations is a good way to expand your connections in the community
 - Volunteering
 - Community involvement
 - Rec league sports teams
- Good ways to develop new job contacts or professional growth activities